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C O N F I D E N T I A L SANTIAGO 000790

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STATE PLEASE PASS TO USTR KATE KALUTKIEWICZ
STATE PLEASE PASS TO FEDERAL RESERVE TOM CONNORS
TREASURY FOR BLINDQUIST
COMMERCE FOR KMANN

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TAGS: [ECIN](#) [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [PREL](#) [CI](#) [VE](#)
SUBJECT: CHILEAN INVESTMENTS IN VENEZUELA UNDER FIRE

Classified By: A/DCM Laurie Weitzenkorn. Reason: 1.4 b and d.

11. (C) Summary: The restrictions on Chilean companies, ability to repatriate funds from Venezuela has become a major irritant between the two countries. Blocked returns exceed \$80 million, and the Chilean Congress and companies have pressed the Bachelet Administration to defend Chilean companies in Venezuela. As a result, President Chavez postponed indefinitely a state visit originally scheduled for June. Chileans are pessimistic about the release of the investment remittances and worry about expropriation. This commercial friction has added a further chill to already frosty political relations between Chile and Venezuela. End summary.

Venezuela: Seventh Largest Recipient of Chilean FDI

12. (SBU) Venezuela is the seventh largest market for Chilean foreign direct investment (FDI), according to Chile's trade ministry equivalent (DIRECON). DIRECON reported investments in Venezuela of \$570 million in 2008 (1.3% of total FDI) concentrated in: forestry/wood products (80%); services (12%), such as financial, technology, storage, and communication services; and the agro-industrial/food sector (7%).

GOC Asked to Defend Chilean Investments in Venezuela

13. (SBU) In June, Chile's Chamber of Deputies passed Resolution No.780 requesting that President Bachelet undertake all necessary measures to defend Chilean companies investing in Venezuela. In 2003, the GBRV implemented strict controls on exchange through the Commission for the Administration of the Foreign Exchange Market (CADIVI). Reportedly, any return on a foreign investment made in Venezuela (mainly in US dollars) must be authorized by CADIVI. To date, 52 Chilean companies have been unable to repatriate \$80 million from Venezuela.

14. (SBU) Those companies affected include many head-line names. CADIVI has retained returns amounting to about \$45 million from LAN Airlines. (Note: Sebastian Pinera, Alianza presidential candidate, is one of the main shareholders in LAN. End note.) Others awaiting returns are: Carozzi (a pasta producer), Concha y Toro (the famous winemaker), and Surlat (a large dairy producer). Chilean small- and medium-size companies (SMEs) are in a more critical

situation. Some have been waiting for over 700 days for their returns. Due to tighter credit conditions in Chile resulting from the global financial crisis, these smaller firms are currently facing pressure from their creditors.

15. (C) The Chilean business community in Venezuela has requested DIRECON's help negotiating with the GBRV. Some companies have openly denounced "deliberate harassment" from Venezuelan authorities. A ceramic tile plant controlled by the Chilean group CISA (with investments in the Venezuelan mining sector) was closed in May. Local sanitary and labor authorities in Venezuela ordered the closure for ostensible health concerns. There is speculation the order was punishment for the Chilean company's failure to support the local electoral campaign of President Chavez' brother. The plant recently re-opened after advocacy from the GOC. CISA's investments in Venezuela amount to \$170 million.

Chavez Postpones State Visit to Chile

16. (C) GOC officials confirmed to the Embassy that President Chavez postponed (for a second time and indefinitely) his visit to Chile in June as a result of the impasse over repatriating the returns on Chilean investments in Venezuela. Chilean press reported the visit was postponed as a precautionary measure because of Chile's increasing concerns about the investment climate in Venezuela.

17. (SBU) The Chilean MFA sent a group of experts to negotiate with the GBRV on behalf of Chilean investors. Foreign Minister Fernandez announced in July that Chilean companies were close to receiving a green light from the GBRV to repatriate their returns. However, the GBRV has not yet provided any dates for the repatriation. Chilean press also recently reported that the GOC had to swap out nominees for Ambassador to Venezuela, after the first request for agreement met with silence. According to the media, Chavez disliked the first nominee's rumored association with the military government in Chile.

Expropriation Next?

18. (C) The Chilean MFA desk officer for Venezuela told E/Pol Specialist that the negotiation process involved in securing the release of returns on Chilean investments has been very slow. He noted Chilean companies do not yet see a light at the end of the tunnel. The GBRV has retained returns since 2007 and its external debt is increasing. Venezuela has ostensibly shown a willingness to resolve the problem with Chile. However, the fall in the price of oil in early 2009 combined with the GBRV's reportedly excessive fiscal spending has caused some Chileans to speculate that Venezuela does not have the resources to make its payments. The MFA foresees the potential for an even greater problem: expropriation. The worry is that Chilean agro/food companies operating in Venezuela could become a target.

19. (C) Comment: The recent commercial friction between Chile and Venezuela has added a further chill to an already frosty bilateral relationship. Chavez' antics have repeatedly spoiled the GOC's attempts to work well with the GBRV (e.g., the famous shutting-up of Chavez by King Juan Carlos of Spain at the 2007 Ibero-American Summit in Santiago). The Embassy has heard expressions of disgust with Chavez and his governance in Venezuela from across the spectrum of its contacts, including within the GOC. Although the Bachelet Administration will put its best public face on this latest chapter, it will erode good will toward the GBRV.
SIMONS